

Message Text

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ORIGIN ARA-10

INFO OCT-01 ISO-00 EB-07 AID-05 CIAE-00 COME-00 FRB-03

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EB/OMA - MR. CROWE

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FM SECSTATE WASHDC

TO AMEMBASSY BUENOS AIRES

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E.O. 11652: N/A

TAGS: EFIN, AR

SUBJECT: ARGENTINE NEGOTIATIONS WITH IMF

REF: BUENOS AIRES 932

1. JORGE DEL CANTO, DIRECTOR OF THE WESTERN HEMISPHERE DEPARTMENT OF THE IMF, HAS INFORMED THE DEPARTMENT THAT THE FUND MANAGEMENT HAS AGREED TO RECOMMEND TO THE BOARD OF DIRECTORS APPROVAL OF A \$135 MILLION COMPENSATORY FINANCING LOAN TO ARGENTINA. THE BOARD IS EXPECTED TO GIVE ITS APPROVAL DURING THE WEEK OF MARCH 22.

2. THE IMF HAS DENIED ARGENTINA'S REQUEST FOR A SECOND DRAWING ON THE OIL FACILITY. DEL CANTO SAID THE FIRST DRAWING LAST OCTOBER WAS BASED ON THE GOA'S PROMISE THAT IT WOULD TAKE CONCRETE STEPS WITHIN THE COMING WEEKS TO DEAL WITH ITS BUDGET DEFICIT, WHICH THE FUND CONSIDERS A MAJOR CAUSE OF INFLATION IN THE COUNTRY. HE NOTED THAT

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ONLY 13 PER CENT OF THE GOA'S EXPENDITURES ARE COVERED BY

TAXATION -- A UNIQUE SITUATION AMONG COUNTRIES IN THE HEMISPHERE. THERE HAS BEEN NO RPT NO PROGRESS ON THIS MATTER SINCE THE PREVIOUS OIL FACILITY DRAWING. THEREFORE ARGENTINA WAS NOT CONSIDERED ELIGIBLE FOR ANOTHER DRAWING. THE BOOKS ARE NOW CLOSED FOR GOOD ON THE OIL FACILITY.

3. DEL CANTO SAID TALKS ON A POSSIBLE FIRST CREDIT TRANCHE WERE INCONCLUSIVE BECAUSE IT WAS TOO SOON TO MEASURE THE EFFECTIVENESS OF MONDELLI'S ECONOMIC PLAN. HOWEVER, THE IMF DID AGREE TO SEND A MISSION, HEADED BY MARCELLO CAIOLA, TO ARGENTINA IN MAY TO EXPLORE WHETHER A FIRST CREDIT TRANCHE IS POSSIBLE. ARGENTINA WOULD BE ELIGIBLE TO DRAW UP TO 36.25 PER CENT OF ITS QUOTA OF SDR 440 MILLION. THIS WOULD BE SDR 158 MILLION OR \$190 MILLION. KISSINGER

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